

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 AGR-20 COA-02 DOTE-00 AEC-11 AID-20

CEA-02 CIAE-00 CIEP-02 COME-00 DODE-00 EB-11 FEA-02

FPC-01 H-03 INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01

PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00

PA-04 PRS-01 USIA-15 DRC-01 /185 W

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R 260455Z APR 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 1970

INFO AMCONSUL MEDAN

AMCONSUL SURABAYA

LIMITED OFFICIAL USE SECTION 1 OF 2 JAKARTA 5063

E.O. 11652: N/A

TAGS: EGEN, EFIN, ID

SUBJ: CERP: GOI ANNOUNCES PRICE STABILIZATION PROGRAM

REF: JAKARTA'S A-142, JUNE 14, 1973

1. BEGIN UNCLASSIFIED: SUMMARY: TO COMBAT INFLATION, CURRENTLY RUNNING AT NEARLY 50 PERCENT ANNUAL RATE, GOI HAS ANNOUNCED PACKAGE OF NEW TAX AND MONETARY POLICIES. MEASURES INCLUDE A) LOWER SALES TAXES ON SELECTED COMMODITIES, B) HIGHER INTEREST RATES ON TIME DEPOSITS AND ON BANK CREDITS FOR PROJECTS OF LOW DEVELOPMENT PRIORITY, AND C) TIGHTER CONTROL ON BORROWING FROM ABROAD, INCLUDING REQUIREMENT THAT FIRMS RECEIVING FOREIGN LOANS MUST DEPOSIT 30 PERCENT OF LOAN IN BANK OF INDONESIA AT NO INTEREST. PROGRAM REFLECTS TOP-LEVEL CONCERN WITH INFLATION AS MAJOR PROBLEM. KEY QUESTION IS WHETHER GOI ABLE TAKE EFFECTIVE STEPS TO CURB EXCESSIVE GROWTH BANK CREDIT AND MONEY SUPPLY. ANNOUNCED PROGRAM VAGUE ON GOI INTENTIONS THIS AREA, AND OUTLOOK IS PROBLEMATIC.

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END SUMMARY.

2. FOLLOWING COMBINED MEETING APRIL 9 CHAIRED BY PRESIDENT SUHARTO OF ECONOMIC STABILIZATION COUNCIL AND OF SOCIAL, POLITICAL AND SECURITY STABILIZATION COUNCIL, INFORMATION MINISTER MASHURI ANNOUNCED THAT GOI IS DETERMINED TO BRING DOWN INFLATION RATE TO 20 PERCENT NEXT FISCAL YEAR FROM CURRENT 47 PERCENT (MEASURED BY JAKARTA 62-ITEM COST-OF-LIVING INDEX, MARCH 1973-MARCH 1974). MASHURI'S STATEMENT EXPRESSED TOP-LEVEL GOI AWARENESS OF INFLATION AS SERIOUS NATIONAL PROBLEM AND DETERMINATION TO CURB RISING PRICES TO PROMOTE CONTINUED ECONOMIC DEVELOPMENT. IT WAS, HOWEVER, COUCHED IN BROAD TERMS AND SHORT ON SPECIFICS. STABILIZATION PROGRAM, MASHURI SAID, WOULD GIVE PRIORITY TO ESSENTIAL PROJECTS SUCH AS FERTILIZER AND CEMENT PLANTS, TRANSPORTATION, TELECOMMUNICATIONS AND INFRASTRUCTURE. SUPPLIES OF ESSENTIAL COMMODITIES SUCH AS RICE, SUGAR, RAW COTTON, YARN, CEMENT, FERTILIZER AND NEWSPRINT WILL BE GUARANTEED AND FLOW OF GOODS IN BOTH DOMESTIC AND FOREIGN COMMERCE WILL BE EXPEDITED. HIGHLIGHTS OF MASHURI ANNOUNCEMENT FOLLOW.

A) SALES TAXES ON IMPORTANT INDUSTRIAL, FARMING AND FISHING EQUIPMENT AND OTHER SELECTED ITEMS WILL BE ELIMINATED OR LOWERED. ITEMS NOW EXEMPT (PREVIOUSLY SUBJECT TO 5 PERCENT TAX) INCLUDE COTTON YARN, NATURAL AND SYNTHETIC FIBERS, FARM IMPLEMENTS, FISHING GEAR, RAWHIDE, BREEDING CATTLE, VEGETABLE OIL, POWDERED MILK AND HERBAL MEDICINES. SALES TAX LOWERED FROM TEN TO FIVE PERCENT ON PAINT, POLISH, PRINTING INK, PLATE GLASS, BUTTONS, PLASTIC OR GLASS WARE, PLYWOOD, HARDBOARD, STATIONERY AND SOAP. ON VITAL EQUIPMENT AND VEHICLES SUCH AS TRUCKS, PICKUP TRUCKS, TRACTORS AND WATER PUMPS, TAX LOWERED FROM 5 TO 2 PERCENT. ON OTHER HAND SOME SALES TAXES ON GOODS CONSIDERED LUXURY ITEMS WERE RAISED -- PASSENGER CARS FROM 5 TO 10 PERCENT, REFRIGERATORS, ELECTRIC STOVES AND WASHING MACHINES FROM 3 TO 7 1/2 PERCENT.

) TO RESTRAIN EXCESSIVE CREDIT EXPANSION, LENDING RATES OF GOVERNMENT BANKS WILL BE RAISED SELECTIVELY IN ACCORDANCE WITH THE DEVELOPMENT PRIORITY OF PROJECTS. RATES WILL NOT LIMITED OFFICIAL USE

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BE RAISED ON HIGH PRIORITY PROJECTS SUCH AS BIMAS RICE PLANTING CREDITS AND LOANS TO SMALL INVESTORS. STATEMENT SUGGESTED THE RESERVE REQUIREMENTS OF BANKS MAY BE STRENGTHENED AND LENDING LIMITS IMPOSED, BUT GAVE NO DETAILS.

C) TO PROMOTE SAVINGS, INTEREST RATES ON ONE-YEAR TIME DEPOSITS WILL BE RAISED FROM 15 TO 18 PERCENT, AND NEW 18-MONTH AND 24-MONTH TIME DEPOSITS WILL BE INTRODUCED,

BEARING INTEREST OF 24 PERCENT AND 30 PERCENT RESPECTIVELY.
INTEREST RATE ON TABANAS NATIONAL BANK SAVINGS ACCOUNTS RAISED
FROM 15 PERCENT TO 18 PERCENT.

D) REGULATIONS OF BORROWING BY INDONESIAN BANKS FROM
ABROAD WILL BE TIGHTENED. STRICT REPORTING REQUIRE-
MENT WILL BE ENFORCED ON PRIVATE COMPANIES BORROWING ABROAD,
AND THEY WILL BE REQUIRED TO DEPOSIT 30 PERCENT OF EACH
FOREIGN LOAN WITH BANK OF INDONESIA WITHOUT INTEREST.
(SEE COMMENT BELOW.)

E) CENTRAL BANK NOTIFIED COMMERCIAL BANKS INDIVIDUALLY
OF SPECIFIC RUPIAH CEILINGS SET FOR EACH DOMESTIC AND
FOREIGN BRANCH BANK. BI ADVISES THESE CEILINGS
CALCULATED TO LIMIT EXPANSION OF CREDIT FOR COMING YEAR TO
MAXIMUM 20 PERCENT PER BANK. BANK INDONESIA DIRECTOR
ISMAEL TELLS US THAT ON AVERAGE THIS CEILING WILL BE
TOUGHER ON STATE BANKS THAN ON FOREIGN BRANCHES AS FORMER
EXPANDED CREDIT AT CONSIDERABLY HIGHER RATE THAT LATTER
DURING PAST YEAR.

3. FOLLOWING APRIL 9 COUNCIL MEETING AND MASHURI
ANNOUNCEMENT, MINISTER OF STATE FOR ECONOMY WIDJOJO,
FINANCE MINISTER ALI WARDHANA AND BANK INDONESIA GOVERNOR
RACHMAT SALEH HELD LENGTHY JOINT PRESS BRIEFING TO EXPLAIN
NEW PROGRAM. JUDGING FROM PRESS ACCOUNTS, HOWEVER, THEY
SHED LITTLE FURTHER LIGHT ON SPECIFICS. WARDHANA DISA-
VOWED ANY TARGET FOR REDUCING INFLATION RATE, DECLARING
ANY DOWNWARD TREND WOULD BE A RELIEF. WIDJOJO STRESSED
EXTERNAL INFLUENCES CONTRIBUTING TO INDONESIA'S INFLATION,
EMPHASIZING THAT RISING EXPORT PRICES OF INDONESIAN RAW
MATERIALS ARE INEVITABLY REFLECTED IN DOMESTIC PRICES
OF SAME MATERIALS, AS WELL AS IN INCREASED COST OF
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IMPORTS OF FINISHED GOODS FROM ABROAD. HE NOTED THAT
TO SECURE PRICE STABILITY OF ESSENTIAL GOODS, GOI WILL
STOCKPILE KEY INDUSTRIAL AND CONSTRUCTION MATERIALS
AS WELL AS FOODSTUFFS.

4. ON APRIL 21, GOI ANNOUNCED INCREASE OF GASOLINE AND
KEROSENE PRICES BY AVERAGE 12-15 PERCENT. END UNCLASSIFIED.
BEGIN LIMITED OFFICIAL USE GOI MINISTERS INFORMED
SECRETARY SHULTZ APRIL 22 THAT GOI UNDER CONSIDERABLE
PRESSURE TO SET CEILINGS ON SELECTED COMMODITY
PRICES, PARTICULARLY THOSE PRODUCED BY STATE
ENTERPRISES (E.G., CEMENT) BUT HAS RESISTED PRESSURES
PREFERRING "ARM-TWISTING" INSTEAD, BY URGING THESE
ENTERPRISES TO HOLD PRICES BELOW WHAT MARKET WILL BEAR.
HOWEVER, IN GASOLINE, PERTAMINA WON OUT IN ARM-

TWISTING CONTEST.

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ACTION EA-14

INFO OCT-01 ISO-00 AGR-20 COA-02 DOTE-00 AEC-11 AID-20

CEA-02 CIAE-00 CIEP-02 COME-00 DODE-00 EB-11 FEA-02

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PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00

PA-04 PRS-01 USIA-15 DRC-01 /185 W

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R 260455Z APR 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 1971

INFO AMCONSUL MEDAN

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LIMITED OFFICIAL USE SECTION 2 OF 2 JAKARTA 5063

E.O. 11652: N/A

TAGS: EGEN, EFIN, ID

SUBJ: CERP: GOI ANNOUNCES PRICE STABILIZATION PROGRAM

5. COMMENT: NEW MEASURES, ON WHOLE, CONSTITUTE MODEST RESPONSE TO INFLATION NOW RUNNING AT 50 PERCENT ANNUAL RATE. MOST IMPORTANT MEASURE DECISION TO LIMIT CREDIT EXPANSION TO ABOUT 20 PERCENT ANNUAL RATE. UNCONTROLLED EXPANSION OF DOMESTIC CREDIT IN FY 1973/74 SAW ROUGHLY 50 PERCENT EXPANSION COMPARED WITH 25-30 PERCENT ANNUAL RATE IN PREVIOUS YEARS -- DURING WHICH ANNUAL INFLATION RATE WAS HELD BELOW 10 PERCENT. CREDIT EXPANSION PROBABLY MAIN FORCE BEHIND HIGH INFLATION RATE. NEW CEILINGS LIKELY TO BE APPLIED WITH EFFECT ON FOREIGN BRANCH BANKS. BY CONTRAST BANK INDONESIA HAS SHOWN INADEQUATE WILL OR POLITICAL STRENGTH TO ENFORCE EVEN RESERVE REQUIREMENTS AGAINST CERTAIN STATE BANKS SO A BIG QUESTION MARK HANGS OVER EFFECTIVENESS SUCH CEILINGS ON STATE BANKS.

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6. REQUIREMENT OF 30 PERCENT NON- INTEREST DEPOSIT OF ALL PROCEEDS OF FOREIGN BORROWINGS AIMS AT FORCING COST OF BORROWING ABROAD NEARER TO THAT IN DOMESTIC MARKET. REQUIREMENT EXEMPTS BORROWINGS A) OF STATE ENTERPRISES B) EXCEEDING 15 YEARS (C) ALREADY APPROVED UNDER FOREIGN AND DOMESTIC INVESTMENT LAWS OR D) GRANTED WITHIN SCOPE OF IGGI.

7. TAX AND INTEREST RATE CHANGES POINT IN RIGHT DIRECTION BUT APPEAR TOO MODEST TO PROVIDE MUCH ANTI-INFLATION RELIEF. NEW INTEREST RATES LARGELY JUST REVERSE REDUCTIONS MADE YEAR AGO (JAKARTA 4538, APRIL 18, 1973) BUT REMAIN BELOW INFLATION RATE. HOWEVER, THEY SHOULD AT LEAST SLOW DECLINE IN SAVINGS RESULTING FROM NEGATIVE INTEREST RATES OF PAST EIGHTEEN MONTHS.

8. ON BALANCE MEASURES APPEAR TAILORED TO IMPORTANCE OF FACTORS BELIEVED TO CONTRIBUTE TO LAST YEAR'S INFLATION, GIVING GREATEST WEIGHT TO STEMMING DOMESTIC CREDIT EXPANSION, FOREIGN BORROWINGS AND RELATED FOREIGN TRANSACTIONS ADDING TO LIQUIDITY OF BANKING SECTOR. CREDIT EXPANSION MEASURES ARE TOUGH ENOUGH TO EVOKE CONSIDERABLE DEPRESSION AMONG FOREIGN BANKING COMMUNITY. ANTI-INFLATION SUCCESS OF THESE MEASURES WILL DEPEND FAR MORE ON ABILITY AND DETERMINATION OF GOI TO ENFORCE THEM EFFECTIVELY THAN ON INTRINSIC TOUGHNESS OF THEIR TERMS.
NEWSOM

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